SECRET
SECURITY INFORMATION

B/Ed

OCI No. 3985
Copy No. 9

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
31 MAY 1953

COMMENT ON CZECH MONETARY REFORM

The drastic monetary reform announced by the Czechoslovak government on 30 May reduces personal savings by over 80 percent and redistributes the remainder in favor primarily of industrial workers and members of agricultural collectives through a preferential currency exchange rate. The same decree abolishes rationing and establishes a new uniform price index in some cases several times higher than previous prices for rationed goods. Although wages in the new currency are also increased, the reform will probably have the net effect of considerably reducing workers' real income.

The monetary measures have been promulgated in order to eliminate the backlog of purchasing power resulting from the government's disproportionate investment in the production of capital goods at the expense of the consumer. The regime also hopes to increase labor productivity by forcing the worker to rely solely on his reduced purchasing power from current income.

The Czech government has publicly admitted failure to fulfill its 1952 export commitments of capital goods to the USSR and the satellites. By increasing productivity and facilitating greater investment in heavy industry the reform should aid the Czech government to meet its large planned exports to the Orbit.

The reform will be used as a weapon against "kulaks and speculators" by forcing them to exchange their savings at a very disadvantageous rate. The abolition of rationing and the shift to a single price system will probably make some additional consumer goods available to workers in key industries as a result of preferential wage increases. The higher price schedule to be paid for compulsory agricultural deliveries is designed to provide some incentive to the agricultural population.

By placing the Czech crown on a gold basis and increasing its value from 12.5 to 1.8 per ruble, the Czech government probably hopes to promote popular confidence in the new money.

SECRET

The reform will have no effect on Czech foreign trade, however, since the crown is not used as an international currency. It will, however, greatly increase the cost of operating Western missions.

The monetary revaluation parallels similar reforms carried out in the Soviet Union in 1947, and in Bulgaria and Rumania in 1952. Prague rumors of the impending revaluation set off riots and a buying panic during the past week. The fact that the Czech government felt secure enough to undertake such a measure despite the disquieting effect it will have on the population is an indication of the effectiveness of the Communists' control.